



Meaning and Introduction of Budget, Budgetary control and its types

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Abstract

Budgets are the individual objectives of a department whereas budgeting may be said to be the act of building budgets. Budgetary Control embraces all this and in addition, includes the science of planning the budgets themselves and utilization of such budget to affect an overall management tool for the business planning and control.

Key word : Budget, Budgetary Control, Fixed etc.



Budget

Budget represents the objectives of any organization that is based on the implication of forecast and related to planned activities. Budget is neither an estimate nor a forecast because an estimation is a predetermination of future events, may be based on simple guess or any scientific principles. Similarly, a forecast may be an anticipation of events during a specified period of time. A forecast may be for a specific activity of the company. We normally forecast likely events such as sales, production, or any other activity of the organization. On the other hand, budget relates to planned policy and program of the organization under planned conditions. It represents the action according to a situation which may or may not take place.

Budgeting

Budgeting represents the formation of the budget with the help and coordination of all or the various departments of the firm.

Budgetary Control

Budgetary control is a tool for the management to allocate responsibility and authority in planning for future and to develop a basis of measurement to evaluate the efficiency of operations. A budget is a plan of the policy to be pursued during a defined time period. All the actions are based on planning of budget because budget is prepared after studying all the related activities of the company. Budget gives a communication ground to the top management with the staff of the firm who are implementing the policies of the top management. Budgetary control helps in coordinating the economic trends, financial position, policies, plans, and actions of an organization. Budgetary control also helps the management to ensure and control the plan and activities of the organization. Budgetary control makes it possible by continuous comparison of actual performance with that of the budgets.

Types of Budgets

Budgets can be categorized in various ways. Let us go through the types of budgets in detail.

Functional Budgets

It relates to any function of the firm such as sales, production, cash, etc. Following budgets are prepared in functional budgets:

- Sales Budget
- Production Budget
- Material Budget
- Manufacturing Budget



- Administrative Cost Budget
- Plant Utilization Budget
- Capital Expenditure Budget
- Research and Development Cost Budget
- Cash Budget

Master Budget or Summarized Budget or Finalized Profit plan

This budget is very useful for the top management of the company because it covers all the information in a summarized manner.

Fixed Budget

It is a rigid budget and is drawn on the assumption that there will be no change in the budget level.

Flexible Budget

It is also called a sliding scale budget. It is useful in:

- the new organizations where it is difficult to foresee,
- the firms where activity level changes due to seasonal nature or change in demand,
- the industries based on change of fashion,
- the units which keep on introducing new products, and
- the firms which are engaged in ship-building business.

Zero Base Budgeting

Zero base budgeting is not based on the incremental approach; previous year figures are not adopted as base.

CIMA has defined it as:

“As a method of budgeting, where all activities are revaluated each time a budget is set, discrete levels of each activity are valued and combination is chosen to match the funds available.”

Control Ratios

Following ratios are used to evaluate the deviations of the actual performance from the budgeted performance. If the ratio is 100% or more, it represents favorable results and vice-a-versa.

Flexible Budget

Flexible budget provides logical comparison. The actual cost at the actual activity is compared with the budgeted cost at the time of preparing a flexible budget. Flexibility recognizes the concept of variability.

Flexible budget helps in assessing the performance of departments in relation to the activity level achieved. Cost ascertainment is possible at different levels of activities.

Cash Budget

Cash budget comes under the category of financial budget. It is prepared to calculate budgeted cash flows (inflows and outflows) during a specific period of time. Cash budget is useful in determining the optimum level of cash to avoid excessive cash or shortage of cash, which may arise in future.

With the help of cash budget, we can arrange cash through borrowing funds in case of shortage, and we may invest cash if it is present in excess.

It is necessary for every business to keep a safe level of cash. Being a part of master budget, the following tasks are included in a cash budget:

- Collection of Cash
- Cash Payments
- Selling Expenses and administrative expensive budget



Conclusion

A budget is a financial plan for a defined period, often one year. It may also include planned sales volumes and revenues, resource quantities, costs and expenses, assets, liabilities and cash flows. Companies, governments, families and other organizations use it to express strategic plans of activities or events in measurable terms. A budget is the sum of money allocated for a particular purpose and the summary of intended expenditures along with proposals for how to meet them. It may include a budget surplus, providing money for use at a future time, or a deficit in which expenses exceed income.

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